

ARTS COMMISSION: 05-14-14
ITEM: (f)(2)

Memorandum

TO: ARTS COMMISSION

FROM: Kerry Adams Hapner

SUBJECT: Proposed 2014-15 Operating Budget
Related to Cultural Development Programs
and Services

DATE: May 7, 2014

Approved:

Date:

May 5, 2014

RECOMMENDATION

Review and receive the proposed 2014-2015 funding allocations for Arts and Cultural Development Programs and Services.

BACKGROUND

The purpose of this memo is to: 1) convey the elements of the City Manager's Proposed 2014-2015 Operating Budget that describe the proposed funding available for cultural development services and programs, 2) outline cultural development priorities, 3) describe the proposed 2014-2015 projected and rebudgeted Transient Occupancy Tax (TOT) allocations, and 4) outline City-wide General Fund support for cultural facilities.

An overview of the Cultural Development TOT Fund, including funding allocations, will be presented for City Council approval as part of the City Manager's Proposed 2014-2015 Operating Budget.

Minimizing the Impacts of the Economic Downturn on the Local Arts Sector

During the economic downturn and the decade of the City of San Jose's ongoing structural deficit, the Office of Cultural Affairs' (OCA) General Fund support was eliminated. The OCA is now funded through TOT and Percent for Art (capital improvement) Funds. During this time, the TOT also experienced significant fluctuations; collections dropped for several years and are now increasing. To minimize and mitigate the effects of the economic crisis on San Jose's arts sector, the City sought to stabilize services to the arts sector, specifically arts grants, by implementing several strategies including:

- Reducing the number of FTE OCA staff positions from 20 to 10;
- Eliminating core programs and services such as Arts Express and special event production, among others;
- Reducing non-personnel and program costs;
- Utilizing one-time reserves to stabilize core grants programs;

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- Prioritizing the Operating Grant Program, as unrestricted operating grants are central to nonprofits' governance and stability;
- Implementing a recession tool kit and increasing services to strengthen financial management; and
- Actively seeking grants and sponsors to leverage City funding.

The retention of arts funding by the City during a time of economic crisis was due to the recognition of the significant social and economic benefits of the arts sector in San Jose.

ANALYSIS

Available Funding

Available 2014-2015 funding for Arts and Cultural Development Programs and Services outlined in the attachment is estimated at \$4,797,383. These funds include:

- Projected TOT revenues, based on the Budget Office's estimate, and
- Estimated "Rebudgeted TOT" from one-time appropriations and unspent 2013-2014 funds (derived primarily from Long Term Reserve, Programmatic Reserve, and unspent program funds).

An additional \$3,384,000 in General Fund supports the operations and maintenance agreements for six cultural facilities.

Cultural Development Funding Priorities

As part of the implementation of the Council-adopted *Cultural Connection: San Jose Cultural Plan for 2011-2020*, a 2014-2016 Prioritized Workplan has been developed that reflects the top priorities for cultural development in San Jose. At its April 9, 2014 regular meeting, the Arts Commission forwarded a recommendation to the City Council to adopt this workplan. On April 28, 2014, the Community and Economic Development Committee forwarded a recommendation to the full Council to adopt this workplan at the May 20th Council meeting. The proposed 2014-2015 Projected and Rebudgeted TOT Allocations reflect this priority list in the context of available human and fiscal resources.

Prioritized *Cultural Connection* strategic goals include:

- Support the availability of diverse cultural spaces and places throughout the community;
- Strengthen Downtown San Jose as the creative and urban center of the Silicon Valley;
- Integrate high impact public art and design throughout the community;
- Foster destination quality events in San Jose;
- Strengthen community-wide marketing and audience engagement;
- Enhance support for creative entrepreneurs and the commercial creative sector;
- Strengthen the cultural community's infrastructure; and
- Increase funding for cultural development.

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The proposed budget reflects these priorities through allocations for specific initiatives outlined in the proposed *Cultural Connection* 2014-2016 Prioritized Workplan. These include:

- Cultural Funding Portfolio (Operating Grants, Festivals, Parades and Celebrations Grants, take pART Grants, special grants, and grants administration);
- Arts Marketing and Audience Engagement, including the *Live and Local* live music campaign;
- Building Public Will for the Arts Initiative, aimed at aligning public values for the arts;
- City-wide and neighborhood arts activation;
- Creative placemaking in the Downtown and City-wide;
- Creative Entrepreneur Program (artists and commercial creative businesses);
- Creative Industries Incentive Fund;
- Nonprofit infrastructure support, including organizational development services such as the Arts Loan Fund, DeVos Institute, and Innovation Risk Capital Grants.

TOT Revenues

Fifteen percent of the collected TOT is used for the funding of cultural arts grants and the OCA. Per the municipal code, allowable uses are OCA operating costs (staff and administration), arts programs and arts grants. Each year, grant awards are recommended based on projected TOT. The total 2014-2015 TOT projected revenue for the arts is \$4,595,636, a 10.35% increase from the 2013-2014 projection level.

Current year TOT receipts mark the fourth year of strong growth, which is in stark contrast to prior year declines of 11.5% and 18.5% in 2009-2010 and 2008-2009, respectively. The completion of the Convention Center renovation and expansion project in September 2013, which added 125,000 square feet of new flexible space, is expected to support continued TOT growth.

Proposed Program Funding for the Cultural Funding Portfolio and Cultural Development

The recommended 2014-2015 level for the Cultural Funding Portfolio (arts and cultural grants) was developed by the following calculation:

Projected 2014-2015 TOT	\$4,595,636
- 10% Variance Contingency	-\$459,564
- Cultural Development Personnel Costs	-\$1,335,447
- Cultural Development Non Personnel Costs	-\$212,806
+ Long Term Reserve	\$187,217
Total Available for Cultural Funding Portfolio (11% increase)	\$2,775,036

This reflects an increase of 11% in funding available from 2013-2014 for the Cultural Funding Portfolio.

Since grants are awarded based on projected TOT revenues, the variance contingency was established to cover shortfalls of up to 10% in TOT revenues actually received by the City, compared with TOT revenues projected. For example, in 2008-2009, actual TOT collections fell

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significantly below the TOT amount projected in January 2008. Since grant awards were based on the projection, there was a shortfall of \$773,000, exceeding the variance contingency. Rather than not issue the full 2008-2009 award to grantees, the remaining shortfall of \$298,000 carried over into 2009-2010. This shortfall illustrates the importance of having a variance contingency each fiscal year. The TOT Long Term reserve is utilized to stabilize cultural funding in future years to offset inevitable TOT fluctuations and any increases in operating costs.

There was a 2013-2014 upward adjustment or "bump" in TOT of \$331,250 as collected TOT exceeded TOT projections. This amount is included in the rebudgeted TOT column of the attached budget, and is used to fund cultural development and implementation of *Cultural Connection*. Rebudgeted TOT funds are "one-time." It is envisioned that the rebudgeted TOT allocated to *Cultural Connection* initiatives will be allocated over multiple years.

2014-2015 Cultural Development Budget

There are minimal proposed budget impacts or reductions to Cultural Development in the proposed FY 2014-2015 Operating Budget. Public Art Program staff time assigned to perform operational services, such as Public Art Conservation and Arts Commission Support, previously charged hourly time to these operations. This time is now funded as part of the base Cultural Development Personnel costs at the same levels of 2013-2014. This does not increase the costs of those services, but is a different way of loading the budget. The proposed FY 2014-2015 Operating Budget includes realignment of staff with the TOT in the amount of \$29,100. This is offset by a new revenue source into the TOT from Special Event Permits, estimated at \$23,000 for next fiscal year, previously appropriated into the General Fund.

Cultural Facilities

Through the General Fund, the City will continue to support the operations and maintenance (O&M) agreements with nonprofit partners operating City-owned cultural facilities. To meet the General Fund shortfall for FY 2011-2012, cultural facility O&M costs were reduced by a collective 10%, totaling \$358,000. The following cultural facility operators are recommended to receive continued O&M support through the General Fund in FY 2014-2015 per their existing agreements:

Cultural Facility Operator	O&M agreement
Children's Discovery Museum	\$285,000
History San Jose	\$784,000
San Jose Museum of Art	\$475,000
San Jose Repertory Theatre	\$285,000
School of Arts & Culture at Mexican Heritage Plaza	\$450,000
Tech Museum of Innovation	\$1,105,000
TOTAL	\$3,384,000

Through the General Fund, the City supports some maintenance and cultural facility capital repair costs, which varies from year to year. These costs are estimated at approximately \$200,000, a

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majority of which is attributed to the San Jose Museum of Art. However, needs have historically been underfunded.

The City has made strides towards identifying the capital maintenance needs of its cultural facilities. The City is working in collaboration with the nonprofit operators to ensure that these cultural facilities remain competitive as regional facilities and community hubs that serve well over a million people a year.

In 2012-2013, the Cultural Facilities Capital Maintenance Matching Fund was established to set aside reserves to address the facilities' life cycle needs, in which the City would match 5% of the current level of each facility O&M subsidy and set it aside into this fund. The Children's Discovery Museum, the Tech Museum of Innovation and the School of Arts & Culture at MHP participate in this optional partnership.

In addition to the General Fund O&M allocations, Team San Jose, through its TOT allocation, supports the operations and maintenance of the Center for the Performing Arts, California Theater, Civic Theater, and the Montgomery Theatre.

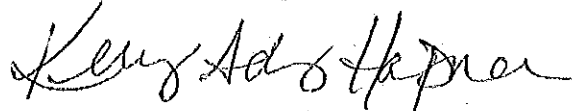
As part of the Mayor's March Budget Message for Fiscal Year 2014-2015, the Mayor directed that the growth in the four percent in the TOT revenues that come to the City's General Fund above the 2013-2014 base year be used for City-owned cultural facilities' deferred maintenance and capital replacement needs. This is estimated at approximately \$450,000 in year one. The Department of Public Works will develop a project prioritization and approval process.

OUTCOME

The proposed 2014-2015 Operating Budget will:

- assist community-based arts organizations to provide arts and cultural activities and experiences for residents and visitors;
- support a wide range of outdoor special events and celebrations; and
- foster cultural development and creative placemaking in San Jose.

Should the Arts Commission, in its role advising the City Council on all matters pertaining to the arts, choose to comment on any items in the proposed budget, those comments will be forwarded to the City Council for its consideration as part of the annual budget process.



KERRY ADAMS HAPNER
Director of Cultural Affairs

Attachment A. Proposed 2014-2015 Projected and Rebudgeted TOT Allocations

Attachment B. Descriptions of Proposed 2014-2015 Projected and Rebudgeted TOT Allocations

Proposed 2014-2015 Projected Rebudgeted TOT Allocations

Funding Sources:

Projected 2014-15 TOT Revenues	Rebudgeted TOT Funds (One Time Funds)	2014-15 TOTALS
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CULTURAL FUNDING PORTFOLIO

Core Grant Programs

1	Festival, Parade & Celebration Grants	310,538	20,662	331,200
2	Operating Grants	2,030,290	149,337	2,179,627
3	Take pART Grants	246,991	17,218	264,209
<i>Sub-Total Core Grants</i>		<i>2,587,819</i>	<i>187,217</i>	<i>2,775,036</i>

Grants Admin

4	Grant Review Expenses	0	20,000	20,000
5	TOT Revenue Shortfall Contingency (10%)	459,564	0	459,564
6a	TOT Long-Term Reserve		707,283	
6b	TOT Long-Term Reserve Augmentation		0	
6c	Total TOT Long-Term Reserve		707,283	707,283
<i>Sub-Total Cultural Funding Portfolio</i>		<i>3,047,383</i>	<i>914,500</i>	<i>3,961,883</i>

CULTURAL DEVELOPMENT AND CULTURAL CONNECTION IMPLEMENTATION (GRANTS & INITIATIVES)

7	Arts Education Exposure Program Transition Support		4,000	4,000
8	Arts Loan Fund (Emergency Bridge Funding)		15,000	15,000
9	Arts Marketing (grants and arts promotion)		52,500	52,500
10	Building Public Will Pilot Initiative w/CA Arts Council		35,000	35,000
11	City-Wide / Neighborhood Arts Activation		100,000	100,000
12	Creative Entrepreneur Project (grants and training)		35,000	35,000
13	Creative Industries Incentive Fund (2 years)		50,000	50,000
14	Creative Placemaking - Downtown & City-Wide Strategy		65,000	65,000
15	Cultural Connection Implementation Strategies		60,000	60,000
16	Cultural Data Project Renewal (3 years)		20,000	20,000
17	Innovation Risk Capital Grants		40,000	40,000
18	International (Sister City) Cultural Exchanges		20,000	20,000
19	Live and Local Live Music Marketing Campaign (SJDA)		40,000	40,000
20	Nonprofit Organizational Development (DeVos Institute)		50,000	50,000
21	Programmatic Reserve		75,000	75,000
22	SoFA Activation		50,000	50,000
23	Special Event Incentive Initiative (grants or incentives)		35,000	35,000
25	Special Grant: Silicon Valley Creates		15,000	15,000
<i>Sub-Total Cultural Development & Cultural Connec. Implem.</i>		<i>0</i>	<i>761,500</i>	<i>761,500</i>

PUBLIC ART

26	Conservation and Maintenance / Public Outreach		55,000	55,000
<i>Sub-Total Public Art</i>		<i>0</i>	<i>55,000</i>	<i>55,000</i>

SPECIAL PROJECTS / ACTIVITIES

27	Arts Commission Activities		9,000	9,000
28	Cornerstone of the Arts Award/Arts & Leadership Event		10,000	10,000
<i>Sub-Total Special Projects / Activities</i>		<i>0</i>	<i>19,000</i>	<i>19,000</i>
Totals		3,047,383	1,750,000	4,797,383

Sources of Funds: 2014-15 Arts Budget

Columns A, B... Transient Occupancy Tax (TOT): City ordinance allocates a portion of San Jose's TOT to the arts, for two allowable uses: 1) cultural grants; and 2) funding the expenses of the Office of Cultural Affairs, including but not limited to personal, nonpersonal, and equipment expenses, fringe benefits, and overhead.

Column A: Represents the City's projection of TOT revenues to be received from July 2014 through June 2015 less anticipated cultural development personnel and nonpersonnel costs.

Column B: Includes actual TOT collections that have been carried over ("rebudgeted") from the previous year, including various reserves, unspent funds, liquidated purchase orders and grants, revenues that exceeded projections in previous years, etc. One time funding.

Column C..... The total estimated amount of projected and rebudgeted TOT (sum of columns A and B).

Uses of Funds: 2014-15 Arts Budget

Lines 1-3 Cultural Funding Portfolio Core Grant Programs: Festival, Parade and Celebration grants; Operating Grants; and take pART Grants (cultural participation project/program grants).

Lines 4 Grant review panel materials, honoraria, etc.

Line 5 TOT Revenue Shortfall Contingency: 10% of projected TOT revenues are withheld in case revenues don't meet projection, to minimize the need for midyear grant reductions or program cuts.

Lines 6a-c TOT Long-Term Reserve: Funds set aside in growth years for use when TOT falls. A long-range purpose, if the growth of the Reserve supports it, is to switch to basing grants on collected rather than on projected TOT revenues.

Line 6a – Funds allocated to the Long-Term Reserve at beginning of 2013-14

Line 6b – Long Term Reserve recommended for augmentation

Line 6c – Remaining Long Term Reserve after augmentation

Lines 7-25..... Cultural Development/*Cultural Connection* Implementation: Strategic initiatives such as special grants, creative entrepreneur/artist support, arts exposure program transition support, technical assistance including grant writing workshop, a City-wide neighborhood initiative, cooperative arts marketing, downtown and city-wide placemaking, incentivizing outdoor special events, Downtown and SoFA activation, innovation risk capital grants, and other cultural development strategies aligned with *Cultural Connection*. Programmatic Reserve is the source of funding for future arts programs and implementation strategies - both existing programs and new program opportunities - as rebudgeted TOT is one time funding.

Line 26 Funding for public artwork conservation, maintenance, and outreach. Includes costs of public art staff time to perform these responsibilities. Note that \$21,000 of General Fund is in the Dept of Public Works budget set aside for general public art maintenance.

Line 27 Supports all expenses directly related to the Commission, including events, meetings, retreat, business cards, materials and supplies.

Line 28 Funding for the Cornerstone of the Arts Award Program and Event.

